NDD-11 REDUCE SUPPORT FOR INLAND WATERWAYS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	260	270	280	290	300	1,400
Outlays	250	260	270	280	290	1,350

In 1986, the Army Corps of Engineers will spend about $620 million on the maintenance, rehabilitation, and construction of the nation's system of inland waterways. 1/ About $400 million goes to maintain and operate locks and canals, and $220 million goes toward construction projects approved more than 10 years ago. Current legislation before the Congress would authorize between $1.4 billion (S. 1567) and $2.6 billion (H.R. 6) in new construction projects--the first new authorizations in this area since 1974.

Fuel taxes of 4 cents a gallon were imposed on barge transport for the first time in 1981; they have since risen to 10 cents a gallon. Current legislation before the Congress would increase this tax to 20 cents per gallon over the next 10 years. Even so, receipts would not recover more than 15 percent of spending on the inland waterway system over the 1987-1991 period, leaving net five-year federal spending on the system at about $3.4 billion. Eliminating projects to enlarge the system's capacity while retaining only those programs needed to operate existing canals, locks, and dams would save $250 million in outlays in 1987 and $1.4 billion over the 1987-1991 period. (Alternatively, new excise taxes on the barge industry could be imposed to offset all federal spending on inland waterways, saving $3.4 billion over the next five years.)

Proponents of a cut in new construction argue that capital expansions are unnecessary. They cite as evidence the overcapacity in the barge industry--about half the fleet is now idle--as well as the unwillingness or inability of barge operators to pay for the projects through higher user fees. Proponents of user fees, however, argue that these tariffs would help ensure that the most cost-effective projects were built and would reduce any competitive advantage provided by federal aid.

1. See CBO, *Charging for Federal Services* (December 1983).

A virtual elimination of capital spending by the Corps would force barge operators and shippers to undertake any capital improvements themselves, or to support higher user fees to finance Corps work. Opponents of such a proposal point to the difficulties inherent in private development of facilities used over large geographic areas by competing companies and firms. They argue that, should the industry rebound, there might be a delay in providing desirable capital improvements.

The Administration proposes to double the current 10-cent-per-gallon tax on barge fuel over the next 10 years, as called for under S. 1567. By 1997, this would generate about $50 million in additional user fees.

NDD-12 ELIMINATE FEDERAL MAINTENANCE ASSISTANCE FOR DEEP DRAFT PORTS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	440	460	470	490	500	2,360
Outlays	430	450	460	480	500	2,320

The Army Corps of Engineers spends about $500 million a year to maintain channel depths at more than 200 ports nationwide. Port users (shippers) benefit directly from this program both through the savings from shipping in larger vessels and by being able to minimize inland transport costs. 1/ Eliminating federal maintenance assistance would produce outlay savings of $430 million in 1987 and $2.3 billion over the 1987-1991 period.

At large ports, the dredging cost per ton of cargo amounts to only a few cents; at small ports, it is commonly in the hundreds and sometimes thousands of dollars per ton--well above any savings in transport costs and sometimes even exceeding the cargo's value. This "free" (Corps-provided) dredging diverts cargo from ports with natural deep water to ports that shippers would otherwise find too expensive to use. Forty-five ports with channels maintained by the Corps handle no cargo at all. Eliminating federal aid would force ports either to impose their own user fees or to seek nonfederal governmental subsidies. As a result, the role of the Corps could be limited to that of a paid dredging contractor (in competition with others). This would limit demand for the Corps' services to ports at which users pay and to depths consistent with port users' needs. Port operators would also have a clear incentive to undertake their own harbor improvements, rather than wait for the Corps to do the work.

Advocates of continuing the Corps' current role in maintaining ports argue that many small ports might forgo maintenance dredging or perhaps close entirely. This could result in social and economic dislocations.

1. See CBO, *Charging for Federal Services* (December 1983), Chapter II.

Proponents of cutting this Corps' activity maintain that the overall efficiency of the nation's port system would be improved.

An alternative to the cost-cutting measure outlined above, S. 1567 now before the Congress calls for a 0.04 percent tax on the value of commercial cargo shipped through U.S. ports. Collections could total $1.2 billion through 1991, producing offsetting receipts equivalent to roughly one-half of projected federal spending. This proposal is also included in the Administration's proposed budget for 1987.

NDD-13 ELIMINATE AMTRAK SUBSIDIES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	610	640	670	690	720	3,330
Outlays	610	570	630	690	720	3,220

Since its start in 1971, Amtrak has received $11 billion (in 1985 dollars) in federal subsidies for its intercity passenger services. When establishing Amtrak, the Congress thought only start-up costs would need to be federally subsidized.[1/] On the contrary, subsidies have continued, and they now exceed $600 million a year, covering all capital spending and nearly one-half of operating costs. Amtrak riders received 17 cents per passenger mile in federal subsidies in 1985--more than the average cost per passenger mile of commercial air travel. In contrast, intercity bus passengers received a net federal subsidy of 0.2 cent per passenger mile, and commercial aviation and automobile travelers more than covered their estimated federal costs through payment of excise taxes on tickets and on fuel. Eliminating federal support for Amtrak would save $610 million in outlays in 1987 and $3.2 billion from 1987 through 1991.

Proponents of such a change argue that the current subsidy provides little incentive to recover costs--even on the potentially profitable Northeast Corridor. Cutting all subsidies for these lines could therefore be particularly effective. Further, raising fares on other lines would increase the possibility that competing bus or air services would become financially attractive to travelers, and would thus decrease the dependence of some small towns on Amtrak services.

Opponents claim that reduced federal support would lead Amtrak to cancel service where the demand is low but where reliable year-round services are not provided by other kinds of transport. They also believe that such cancellations would threaten the integrity of the national rail network. (The effect on the nation's overall passenger transport system would be

1. See CBO, *Federal Subsidies for Rail Passenger Service* (July 1982).

negligible.) Further, any cancellations could well involve employee protection benefit payments (including up to six years in salary), which would reduce the savings unless the Congress modified this provision.

Alternatively, Amtrak subsidies could be reduced and restructured to improve cost control and efficiency incentives while affording protection to towns that might otherwise be left without intercity transport. Savings could total $300 million in 1987 and $1.7 billion through 1991 by a combination of simultaneous actions: eliminating subsidies on the Northeast Corridor; requiring that fares (or local subsidies) for each route cover at least all costs for crews, supplies, and fuel; and cancelling subsidies for services to points that receive transport subsidies under small-community air service grants.

The Administration calls for the elimination of all federal aid to Amtrak, with no provision for any labor payments.

NDD-14 REDUCE FEDERAL MASS TRANSIT AID

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	1,790	1,840	1,890	1,900	1,920	9,340
Outlays	720	1,030	1,280	1,490	1,690	6,210

The federal government currently provides substantial assistance to mass transit through programs that support the capital and operating costs of most public transit systems. These programs, administered by the Urban Mass Transportation Administration, have grown dramatically since they were first instituted in the mid-1960s. Outlay savings of $720 million in 1987 and $6.2 billion over the 1987-1991 period could be obtained by reducing the federal match on capital grants from the current 75 percent or 80 percent to 50 percent, and by eliminating operating assistance.

Supporters of such a reduction note that federal aid has allowed transit systems to finance large increases in costs--real unit labor costs, for example, increased 43 percent during the 1970s--while ridership and fare collections declined. They also argue that the large federal subsidies for capital spending have encouraged local transit agencies to purchase new capital equipment, such as large buses and subways, rather than to improve the quality or productivity of existing services. Finally, they assert that reduced federal operating and capital support would force local authorities to lower costs and increase ridership by making greater use of innovative techniques. These could include private contracting for services, use of more cost-effective smaller vehicles to meet the needs of special groups, direct subsidies for low-income riders (akin to food stamps), and reduced local regulations to permit private firms to compete directly with public transit agencies.

Proponents of federal transit aid maintain that public transportation is essential to urban mobility and that sudden changes in financial assistance could cause dislocations and hardships for certain groups. Others argue that an across-the-board cut would be particularly inefficient, in that the greatest need for large investments in transit improvement is now mostly confined to rehabilitating systems in older cities and that federal assistance should be targeted toward such cities.

The Administration's budget calls for the elimination of all operating assistance and two-thirds of capital grants. The remaining capital grants ($1.1 billion) would be combined with about $2.2 billion in federal highway grants to form a new ground transportation block grant. At local discretion, these funds could be used for either transit or highway capital projects.

NDD-15 REDUCE AND REFOCUS HIGHWAY SPENDING

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	6,400	6,700	6,900	7,200	7,500	34,700
Outlays	900	3,800	4,700	5,200	5,600	20,300

The federal government, in partnership with the states, finances construction and repair of highways and bridges. Federal spending in 1985 totaled $12.8 billion--about one-third of total spending for highways and bridges. For 1986, the Congress has authorized an increase in highway spending to $15.3 billion. Over the years, the federal/state partnership in financing the construction of highways has grown to include more locally oriented segments of the nation's road network, such as beltways and other local routes. As a result, today only two-thirds of federal highway funds are spent for the two most nationally oriented road systems--the Interstate and Primary systems--compared with nine-tenths just 15 years ago. By limiting the federal highway program to its original emphasis on intercity arteries, the Congress could save $0.9 billion in 1987 and $20.3 billion through the 1987-1991 period.

At present, locally oriented routes account for almost two-thirds of the spending needed to complete the 1,200 miles still to be built on the Interstate system. Confining federal support to Interstate routes of national significance only would reduce outlays by $7 billion over the next five years alone. Turning financial responsibility over to state governments for urban and secondary roads, for other non-Interstate roads, and for local bridges would reduce federal spending by an additional $13.3 billion over the next five years.

Withdrawing federal support for such routes, however, would involve breaking long-standing commitments, and would force either substantially greater state and local expenditures or the curtailment of some construction and repair work. The added burden on states could be relieved somewhat by providing them with a portion of the revenues from the increase in the federal motor fuels tax enacted in 1982, but this would also reduce the federal budgetary savings.

Rather than being eliminated, the federal share of the costs of local routes could be reduced to 50 percent (from the present 90 percent for Interstate routes and 75 percent for other roads). This would encourage state highway departments to subject roadwork proposals to stiff tests of potential cost effectiveness. Some planned segments of the Interstate might be left unbuilt. Federal budgetary savings would total about $8.6 billion over the next five years, with more than one-half coming from the Interstate program.

Spending reductions from a more limited federal role in highways would save more than enough to cover the projected $6 billion shortfall in the Highway Trust Fund over the next five years. Instead of reducing aid, however, the Congress could correct this shortfall by increasing the current tax on motor fuel by 1 cent per gallon. About $4 billion in revenues could be generated from 1987 through 1991 by eliminating the motor fuel tax exemption for gasohol (equivalent to a subsidy of 60 cents per gallon), for state and local governments, and for local transit buses.

The Administration proposes holding highway spending to $12.8 billion, their estimate of highway excise tax receipts (but excluding any interest earned by the cash balance in the Highway Trust Fund). This represents a cut of about 5 percent from the current level of spending. The Administration also calls for the elimination of the tax exemption for gasohol and for private buses.

NDD-16 ELIMINATE FEDERAL SUPPORT TO STATES FOR CONSTRUCTION OF SEWAGE TREATMENT PLANTS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	705	1,442	2,180	2,930	3,089	10,346
Outlays	5	93	393	890	1,486	2,867

The federal government provides grants to states and local governments to assist in the construction of local sewage treatment plants. Such plants are required to meet the stringent clean water goals mandated by the Federal Water Pollution Control Act Amendment of 1972.[1] Construction of local wastewater treatment plants is subsidized for two reasons. First, federal participation is deemed necessary to achieve the mandated national goal of clean water. To ensure local compliance with this expensive mandate, the Congress offers the incentive of large federal grants. Second, while sewage treatment plants help solve local water quality problems, they also provide cleaner water to downstream users, who are often outside the jurisdiction of the community that built the plant. Early attempts to combat water pollution demonstrated that few communities, if any, were willing to fund treatment facilities that solved more than local problems. Thus, another purpose of the capital subsidies is to compensate local taxpayers--who use and help build the plants--for providing benefits to other regions, benefits that might not ordinarily be captured. The government now provides 55 percent of planning, design, and construction funds for treatment plants; this share was lowered from 75 percent at the start of 1985.

Authorization for the Construction Grants program expired at the end of 1985, but current proposals call for continuing grants through 1990. Current baseline budget projections for these activities call for roughly $2.5 billion in appropriations in 1987, and a total of $13.9 billion over the 1987-1991 period. If grants for sewage plants were phased out over three years beginning in fiscal year 1987, the federal government could save about $5 million in outlays in 1987, and nearly $2.9 billion over the 1987-1991 period. This

1. See CBO, *Efficient Investments in Wastewater Treatment* (June 1985).

proposal is identical to the Administration's policy initiative for phasing out construction grants.

Critics of the sewage grant program contend that it fosters inefficiency by providing little incentive to seek cost-effective solutions. A community that expects to receive 55 cents on the dollar from federal funds (plus additional subsidies provided by many state treasuries) has less incentive to control plant costs than if it had to pay for the entire investment. Another common criticism is that the sewage grant program, begun 14 years ago, has long exceeded its original planned lifetime of only three years. Finally, the federal wastewater grant program has created a pattern in which facilities line up and wait for federal assistance, for periods of possibly 10 years or more. While communities wait for federal subsidies, their wastewater discharges violate clean water mandates, and the quality of streams and rivers shows little improvement.

By limiting funds to only those projects begun before 1987, the federal government could reduce budgetary outlays by more than $3.5 billion over the 1987-1991 period. As an alternative, the federal government could reduce outlays more slowly by gradually lowering the federal share to zero. (Some opponents contend that the federal matching share should be lowered to approximate more closely the benefits provided; however, others contend that if benefits are correctly estimated, the federal matching share should actually rise.)

In any case, curtailing federal subsidies would transfer a large cost burden to states and localities. In the Environmental Protection Agency's latest calculation, it estimated that remaining nationwide sewage plant construction needs would cost $109 billion by the year 2000, of which about $53 billion would be eligible for federal grants. To meet these needs without federal support, even by the year 2005, states and local jurisdictions would have to spend about $6 billion a year, or about twice current nonfederal outlays.

NDD-17 REDUCE CREDIT SUBSIDIES TO FEDERAL POWER MARKETING ADMINISTRATIONS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1987	1988	1989	1990	1991	
Budget Authority	88	259	236	211	193	987
Outlays	144	569	504	433	368	2,018

Federal power marketing administrations--including the Bonneville Power Administration, the Southeastern Power Administration, the Southwestern Power Administration, and the Western Area Power Administration--sell electricity at wholesale rates from generating plants owned and operated by the federal government. Capital investments for these generation facilities are financed by federal appropriations at subsidized interest rates averaging 3 percent. By law, the agencies are required to use income from electricity sales to repay all federal investments within a "reasonable period," though not at a set rate or on a fixed timetable. Because Treasury repayments are the first to be deferred when revenues are insufficient to meet all obligations, however, some power marketing administrations have fallen behind on planned repayment to the U.S. Treasury. Moreover, because subsidized rates are lower than actual government borrowing costs, the Treasury has lost money through its appropriations to the power marketing administrations.

The Bonneville Power Administration, for example, has deferred repayments of its appropriations over the last decade. To date, it has reimbursed the Treasury only $0.6 billion of the $6.4 billion appropriated for power purposes. Its cumulative repayments would have been about $1.2 billion more since 1974, had it adhered to a fixed repayment schedule. If all federal investments had been repaid at the Treasury interest rate, the Bonneville Power Administration's interest payments would have been $2.8 billion greater over the 1974-1984 period.

Requiring the power marketing administrations to repay all federal appropriations on a fixed schedule and at current Treasury interest rates (about 6.6 percent for one-year notes by 1990) would increase Treasury revenues, and would thus lower federal outlays by $144 million in 1987 and about $2 billion over the 1987-1991 period. These changes could increase electricity rates for wholesale customers in certain agency service areas. As an alternative--to reduce the effects of a potential price shock on households and industrial customers--the currently subsidized interest rates charged to the power marketing administrations could be gradually raised to current Treasury rates. This would slow the pace at which agency repayments increased.

In contrast, the Administration proposes to sell (privatize) all transmission and power generating facilities of the power marketing administrations. Assuming that all power agencies can sell their facilities under the Administration's criteria, outlay savings over the 1987-1991 period could reach $11 billion, relative to the baseline projections.

Though the power marketing administrations have promoted regional industrial bases by providing electricity to undeveloped areas, critics contend that the electricity prices charged today by the various agencies do not reflect the actual cost of delivering power. They point out that the original goal has been met, and that the below-market rates simply represent an inequitable subsidy to certain regions--a cost borne by all taxpayers. Finally, they argue that withdrawing the subsidy from power agency interest payments would not disrupt local economic activity, since electricity prices in areas served by the power agencies would still remain low relative to the national average (they now are less than one-half of the national average). Proponents of the status quo counter that withdrawal of the subsidy could, for some industries, translate into higher product prices and lost market shares.

NDD-18 END THE EXPORT-IMPORT BANK DIRECT LOAN PROGRAM

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	400	800	0	0	0	1,200
Outlays	200	400	500	500	500	1,900

The Export-Import Bank (Eximbank) attempts to increase U.S. exports by providing loans and loan guarantees to foreign purchasers of U.S. merchandise. The direct loan program offers subsidized interest rates, while the loan guarantee program encourages commercial banks to extend credit to foreign buyers by reducing the risk inherent in export financing. Between 1981 and 1985, the level of new direct loans by Eximbank fell from $5.4 billion to $0.7 billion. Eximbank responded in fiscal year 1986 by offering loans with subsidies over 25 percent and increasing the amount of a sale the bank would finance from 65 percent to 85 percent of the total export value. For 1987, the President is proposing to finance $1.8 billion of direct loans through Eximbank guaranteed borrowing from the public instead of through the Treasury. This change in the means of financing would raise government costs, because of the greater expense of circumventing the customary federal financing mechanisms. Annual Eximbank loans are projected to increase from $1.1 billion in 1987 to $1.3 billion in 1991. Eliminating the direct loan fund would save $200 million in outlays in 1987 and $1.9 billion over the five-year period.

Advocates of these loans base their position on three arguments. First, these loans are needed to offset the subsidies other nations provide for their exports. Second, increased exports boost U.S. employment. Third, exports allow some U.S. high-technology industries to maintain a high level of output and, consequently, reduce costs through economies of scale.

Critics of Eximbank's direct loan program consider these justifications overstated. In many instances, the exports in question face little if any subsidized competition, either because U.S. firms have monopolies or near-monopolies in certain submarkets (such as long-range aircraft with 250-plus seats), or because no other nations provide subsidies to the product in question. Furthermore, using Eximbank loans to escalate subsidy levels is not necessarily a useful strategy: other nations may choose to match U.S. subsidies. If all nations chose to follow the U.S. example, all nations would be subsidizing prospective purchasers, and no nation would be better off. Furthermore, evidence suggesting that the loans encourage new exports is scarce. Rather, these loans often represent new financing of exports that would have been purchased without federal involvement. Where this occurs, these loans represent not new jobs but windfall transfers of income from U.S. taxpayers to domestic producers and foreign purchasers.

NDD-19 DISCONTINUE POSTAL SUBSIDIES FOR NOT-FOR-PROFIT ORGANIZATIONS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	490	530	550	570	610	2,750
Outlays	490	530	550	570	610	2,750

The Postal Reorganization Act of 1970, which replaced the old Post Office Department with the current U.S. Postal Service, intended that the mail system operate as a largely self-sufficient enterprise with mail users paying the full costs of postal services. But certain bulk mailers--notably educational, religious, and other not-for-profit organizations--receive favored statutory treatment. These favored mailers pay reduced postage rates that cover less than the full cost of the services they receive. 1/ The taxpayer subsidizes the remaining cost through annual payments from the Congress referred to as revenue forgone appropriations. In 1985, the revenue forgone payment for not-for-profit bulk mailers totaled nearly $650 million. Almost $2.8 billion could be saved through 1991 if such payments were discontinued and postage rates were increased accordingly. Smaller subsidies supporting reduced rates for blind and otherwise handicapped persons, libraries, and others could be continued.

The subsidy was originally intended to promote the flow of educational, cultural, charitable, and other similar information. It also reflected an effort to ease the transition from the old, heavily subsidized post office system to the new self-supporting Postal Service. Eliminating postal subsidies would, on average, cause rates for not-for-profit organizations to double or more. Such rate hikes could pose financial difficulties for some organizations, especially those that depend heavily on mail solicitation for fund-raising and those just starting out.

Cutting the revenue forgone appropriation would be consistent with the President's 1987 budget. Critics of the subsidy argue that discontinuing reduced postage rates would further the goal of a self-sufficient postal

1. See CBO, *Charging for Federal Services* (December 1983), pp. 77-84.

service. Providing special rates for favored mailers, they contend, encourages overuse of mail services. This overuse, among other things, causes households to receive more mail than they may want; the Philanthropic Advisory Service, a branch of the Better Business Bureau that monitors the activities of charitable organizations, reports frequent complaints from citizens who have received multiple solicitations for support from the same not-for-profit groups. Further, the Advisory Service has found that, for many not-for-profit organizations--including a number of well-established groups--mail solicitation costs consume a very high percentage of related contributions. This suggests inefficient use of direct mail solicitation.

While acknowledging that discontinuing special rates could cause financial problems for some groups, critics of the subsidy argue that the government can no longer afford to support the mailing costs of groups already receiving substantial federal assistance. They point out that not-for-profit organizations received about $3.1 billion in federal grants in 1985, and that support in the form of tax deductions for charitable contributions will total an estimated $13.6 billion for 1986. Moreover, reduced postage represents an additional burden on taxpayers who, on their own, contributed more than $60 billion to charitable organizations in 1984. (Other deficit reduction measures affecting the U.S. Postal Service include NDD-04 and PERS-05.)

NDD-20 END FUNDING FOR THE LEGAL SERVICES CORPORATION

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	310	330	350	370	390	1,750
Outlays	270	320	340	370	390	1,690

The Legal Services Corporation (LSC)--an independent, not-for-profit organization established in 1974 legislation--provides free legal assistance to the poor in civil matters. Despite repeated attempts by the Administration to abolish the program, the Congress has continued to fund it. Termination of the LSC would generate five-year outlay savings of about $1.7 billion through 1991. This action would be consistent with the President's proposed budget for 1987. In contrast, cuts under the Balanced Budget Act would probably result in a simple reduction in program activity.

From its inception, the LSC has been the subject of much controversy. Critics have charged that the activities of legal aid lawyers too often focus on the advancement of social causes rather than on the needs of poor people with routine legal problems. The Administration and opponents believe that the responsibility for legal assistance to the poor should rest not with the federal government but with states and localities. From this perspective, support from other federal grants, private sources, and donated services could help to meet local needs for legal aid. Such an approach, critics argue, would give localities more control over legal aid programs, and would thus permit services to be more responsive to local needs.

Advocates of continuing the LSC argue that a specifically targeted federal assistance program is the only way to ensure that legal aid is available to people who cannot pay. They point out that the inadequacy of local and private resources was one of the factors that led to direct federal financing in the first place, and they believe that a strong federal program provides essential oversight and national direction. In response to the continued criticism that LSC lawyers act too often as social activists, proponents of the program point out that restrictions passed by the Congress over the years have already curtailed the activities some observers found objectionable.